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DEPARTMENT FOR NEA/ARP, EEB/ESC/IEC
ENERGY FOR GINA ERICKSON

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SUBJECT: SUPREME PETROLEUM COUNCIL APPROVES SHELL TSA

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11. (U) This contains business proprietary information.

12. (SBU) On February 9, ExxonMobil Kuwait President John Hoholick told Econcouns that he had been learned that Kuwait's newly appointed Supreme Petroleum Council had approved an agreement with Shell to develop the Sabriyah gas field. According to Hoholick, the agreement was strictly an enhanced "technical services agreement" with no potential for partnership for Shell. The agreement would have a 5-year duration and he understood that there might be a performance bonus involved. Hoholick's remarks track with Kuwait Petroleum Council Deputy Managing Director and General Counsel Sheikh Nawaf Al-Sabah's comments to Econcouns on January 31 that KPC was close to a Enhanced TSA with Shell. Hoholick also questioned why Shell would sign a TSA, which he argued was not a particularly profitable operating system for a major oil company. He stressed that ExxonMobil had no interest in a TSA alone. (Note: Chevron pulled out of Kuwait because the ETSA it negotiated with KPC left it vulnerable to U.S. tax liability. End note.)

13. (SBU) With regard to Exxon's long running negotiations with KPC over plans to develop Kuwait's heavy oil reserves, Hoholick was guardedly optimistic. He said that Exxon had met with Kuwait Oil Company (KOC) representatives on January 14 and that KOC had identified four issues as concerns: title to the oil, the issue of giving the Exxon joint venture a sole source contract for the steam (versus going through the tendering process), the issue of compensation (which Exxon wants tied to the price of oil), and being sure that Exxon's investment would be clearly demarcated as "downstream." (Note: Sheikh Nawaf had reiterated that one of the sticking points had been Exxon's insistence on "flash ownership" of the oil in Kuwaiti territory. End note.)

14. (SBU) According to Sheikh Nawaf, the deal with Exxon would include both a technical services agreement for producing Kuwait's heavy oil and a downstream joint venture partnership to create steam for injection. The JV would sell the steam to KOC. Exxon would purchase the oil produced for use in its refineries. According to both Hoholick and Sheikh Nawaf, one of the outstanding issues has been when Exxon takes possession of the oil. Hoholick expressed optimism that the issues could be resolved. He also noted that, given the other opportunities available in the region and the call on Exxon's limited human resources, the numbers would need to make sense to operate in Kuwait.

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